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TO: Teresa Henry, Chair Appropriations Subcommittee Health and Human Services

FROM: Anna Whiting Sorrell, Director DPHHS
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SUBJECT: Impacts of an Economic Downturn on Medicaid.

As the economy declines and unemployment increases, workers and dependents lose access to employer based insurance coverage. Studies show that an economic downturn and increases in unemployment will have the largest (Medicaid & CHIP) effect on non-disabled children and adults (up to age 64): this report and analysis will concentrate on the impacts to Montana Medicaid enrollment for this group of recipients.

DPHHS gathered national studies and contacted numerous states to see what is being developed and used by other health professionals and agencies to forecast enrollment impacts in the recent economic downturn. What was found is that, like Montana, other states are struggling with quantifying the impacts of the current economic situation. Many states are simply using best guess estimates based on long-term enrollment trends adjusted for recent short-term changes in enrollment or anecdotal evidence. Other states are utilizing correlation or linear (regression) relationship calculations between enrollment and unemployment levels.

The focus of this analysis is set around a national study prepared by the Urban Institute that utilizes a correlation or linear relationship methodology between unemployment and Medicaid and CHIP. However, the recommended Montana impacts also consider what other states are currently experiencing, along with contrasting the recommendations with historical Montana enrollment changes during periods of large growth as a reasonability check.

Unfortunately, Montana's enrollment data over the last 15 years does not show a noticeable parallel with unemployment levels. However, this does not necessarily mean that there is not a relationship or that correlation does not exist; or more importantly, that there will not be a strong association between unemployment levels and Medicaid and CHIP enrollment moving into the future. Historically, Montana unemployment has been stable with changes occurring slowly over time, while Medicaid and CHIP participation has been affected by program statutes, regulations, and procedures on both the state and national levels. It is likely that the

relationship between Montana enrollment and unemployment will be more evident with the current large and sudden change in the economy.

Medicaid Enrollment, MT Unemployment, & National Unemployment Rate
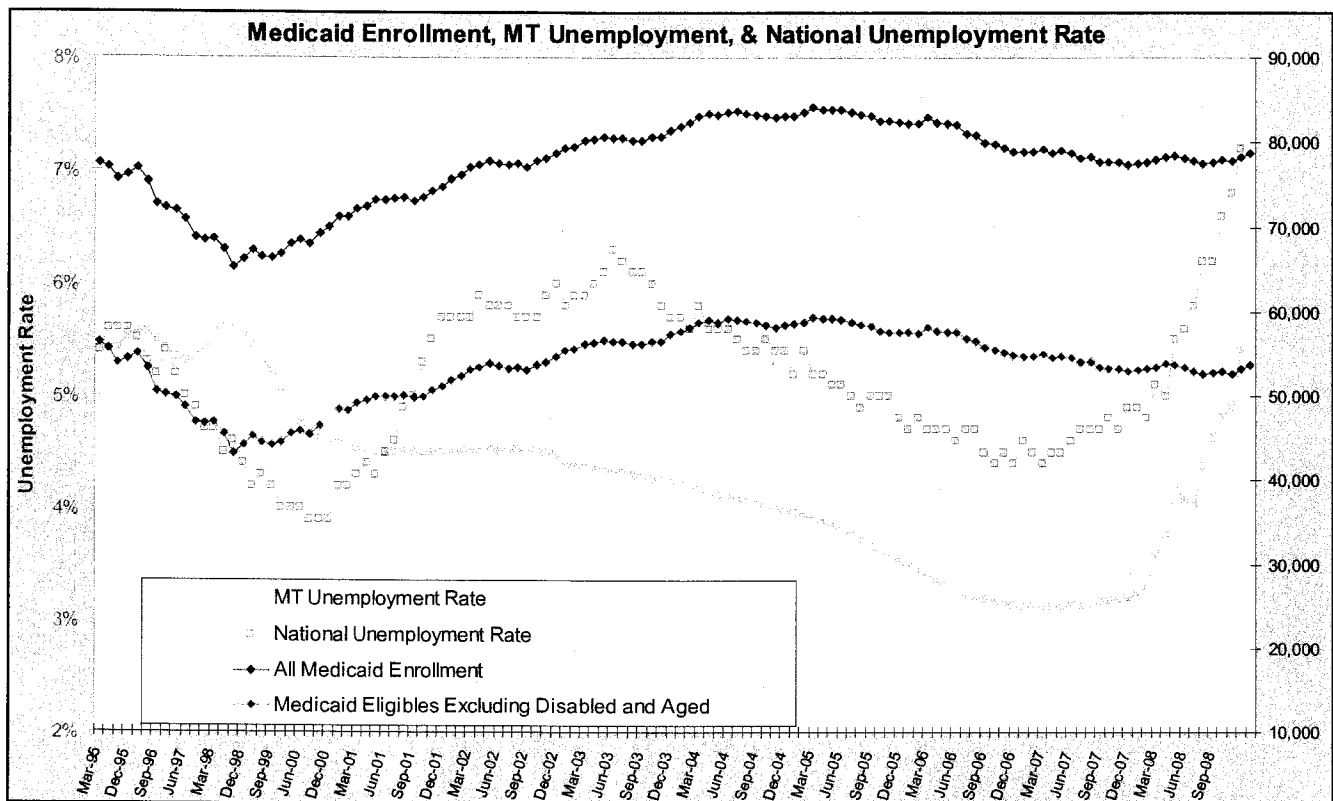
There are four main factors to calculating the estimated impacts of the economic downturn using unemployment levels as the lead indicator.

1. Project the number of people unemployed over the period.

2. Estimate a multiplier or ratio at which unemployed workers and their dependents will become eligible and enroll in Medicaid or CHIP.

3. Allocate the anticipated number of children enrolled between Medicaid and CHIP.

4. Approximate the lag time between when a person becomes unemployed and when they (and their dependents) would become eligible and enroll in Medicaid.

There are many issues to consider when assessing the impacts to Medicaid and CHIP during an economic downturn. Any projection will be exceptionally volatile because each of the four pieces to the calculation are estimates that will all have some degree of error inherently built-in. For example:

1. For every one-half percent (0.5%) change in the unemployment rate through the study period, enrollment and fiscal impacts would change by 15%.

2. For every 10% change in the ratio at which unemployed workers and their dependents become eligible and enroll in Medicaid, enrollment changes by 1,180 or $5 million dollars at the peak of unemployment.

The following recommendations are estimates based on Montana specific economic data and information gathered from other states and national studies.

1. **Project the number of people unemployed over the period.** Forecasts from Global Insight are used as the basis for unemployment levels over the period.

2. **Estimate a multiplier or ratio at which unemployed workers and their dependents will become eligible and enroll in Medicaid or CHIP.** The Urban Institute estimates a national ratio of 65% (for every 100 new unemployed workers, Medicaid and CHIP would see 65 new enrollees). Recommend using the national ratio of 65% considering that (1) Montana's non-disabled children and adults saw analogous changes from 2000 to 2003; and (2) since Montana's historical unemployment rate does not show noticeable correlation, (see attached chart) and there is no consensus among states on estimating the impacts, there is little reason to expect a ratio different from the national average (Minnesota uses a 37% ratio, Georgia a 75% ratio, and Nevada a 120% ratio – while most other states use a flat 2% to 3% growth estimate).

3. **Allocate the anticipated number of children enrolled between Medicaid / CHIP.** Allocate anticipated increases to children's enrollment at sixty percent (60%) to Medicaid and forty percent (40%) to CHIP.

4. **Approximate the lag time between when a person becomes unemployed and when they would become eligible and enroll in Medicaid.** Recent information from other states indicates that the current economic downturn may be reducing the lag time between unemployment and enrolling in Medicaid or CHIP. Speculation is that the lag time is being reduced because the changes to the economy have been so substantive and sudden. There is some evidence that the lag time in Montana is between nine (9) and sixteen (16) months. We have chosen a lag time of nine (9) months.

The impacts associated with this analysis are in addition to natural growth and projected caseload without the economic downturn. The summary below lists Medicaid impacts only – it does not include CHIP. CHIP impacts were not included because the Department was not comfortable separating impacts of Initiative 155 implementation from this economic downturn projection.

At the recommended variable levels, Medicaid expenditures would be estimated to increase over current Medicaid projections by $2.9 million in FY 2009, $24.8 million in FY 2010, and $32.1 million for 2011.

Recommended Impacts - Medicaid Only				
Unemployment to Medicaid or CHIP Ratio of 65% and Max Unemployment Rate of 6.26%				
- - - 9 month Lag - - -	FY 2009*	FY 2010	FY 2011	FY 2012	FY 2013
Avg. number recipients per month	671	5,774	7,452	6,975	6,775
Avg. number recipients change prior year	671	5,103	1,678	-477	-200
Annual % change in recips. from prior year	0.9%	6.5%	2.0%	-0.6%	-0.3%
9 month lag estimated YEARLY cost	$2,887,760	$24,835,143	$32,051,735	$30,000,088	$29,140,971
Estimated FMAP	66.12%	67.52%	67.06%	66.60%	66.17%
Estimated State Share	$978,373	$8,066,454	$10,557,842	$10,020,029	$9,858,390
*SFY 2009 adjusting down by 50% on the basis of current completion factor.				

While this analysis has many limitations, the numbers are suggestive of what Montana can expect as unemployment figures continue to rise.